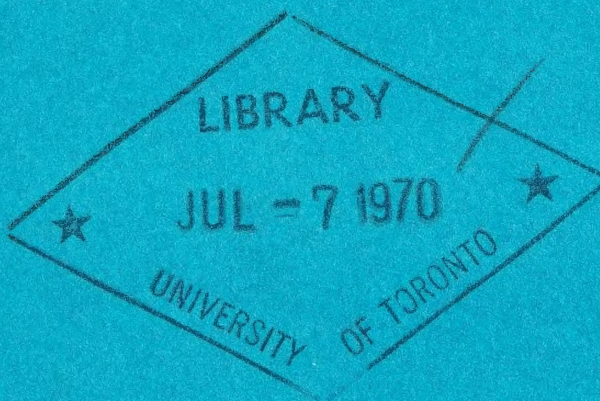


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Prices and Incomes Commission

Ottawa, Canada



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April 1970

Tin Plate

Prices and Incomes Commission

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Foreword

The Prices and Incomes Commission was established on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

Following numerous separate discussions with representatives of the Canadian business community, including the Canadian Chamber of Commerce, the Canadian Manufacturers' Association, the Retail Council of Canada and the Canadian Bankers' Association, the Commission decided to call a National Conference on Price Stability in order to obtain a consensus of views on a national policy to combat inflation. The Conference, held in Ottawa on February 9 and 10, was attended by senior officers of national business and farm associations, representatives of professional groups, leaders of the Canadian business community and officials of the federal and provincial governments. Those present indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970 and there was broad agreement that:

- (a) Business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970.
- (b) More specifically, where higher prices are needed to cover higher costs, and market conditions make them feasible, business firms generally, if called upon to do so, would ensure that price increases were clearly less than the amount needed to cover

the increases in costs at a normal volume of output and sales.

The complete list of agreed criteria is contained in the Closing Statement of the National Conference on Price Stability released on February 10, 1970.

At the Federal-Provincial Conference of First Ministers in Ottawa on February 16 and 17, 1970, Heads of Government endorsed the Commission's plan to call without delay upon business firms generally to follow the basic principle adopted by the National Conference on Price Stability, namely to reduce the number and size of price increases they would normally make in 1970 by ensuring that such price increases are clearly less than the amount needed to cover cost increases. First Ministers urged all Canadians to co-operate actively in restraining price and income increases during 1970.

The Government of Canada and most provincial governments expressed the hope that government sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission.

Following the Conference, the Prices and Incomes Commission was notified by The Steel Co. of Canada Ltd. (Stelco) and Dominion Foundries and Steel Ltd. (Dofasco) that they intended to increase the price of tin plate by approximately five per cent effective April 1, 1970.

The objective of this study is to determine whether these price increases are consistent with the criteria agreed to at the National Conference.

Introduction

These criteria were designed to be applied to the circumstances of individual firms which proposed or implemented price increases or which failed to make price decreases. To undertake a review in line with the procedures proposed at the Conference, the Prices and Incomes Commission has obtained detailed information from each of the two domestic producers of tin plate and has compiled and studied these data separately in order to determine the position of each company in relation to the criteria.

Information was obtained on costs, prices, markets, profits and financial performance. Since costs are not fully allocated on a product basis by the industry, it has been necessary to use figures for rolling mill operations for purposes of determining changes. Records were obtained, therefore, for total steelworks activity, ranging from basic materials through the various rolling operations to the finishing of rolled steel, including tin plating.

The criteria also stipulated that 1969 would in general be used as the base year when considering changes in costs and revenues. The closing statement of the Conference provides, however, that "in cases where this would be clearly inappropriate, a suitable alternative base period would be selected". In the case of Stelco, 1969 is not an appropriate base year because strikes and work stoppages resulted in a serious distortion of that company's costs. Thus 1968 has been used as the base year.

Dofasco did not experience a strike in 1969 and operated at record levels of output. It has been necessary, therefore, under the criteria to use 1969 as the base year for this company. For purposes of comparison, however, cost and revenue

changes between 1968 and 1970 are shown for both companies.

It should be pointed out that Dofasco's revenues and profits were at record levels during 1969. One of the reasons for this situation is that, in addition to record levels of output a number of price increases for rolling mill products were introduced by the company during the year. Furthermore, because of the substantial increase in world market prices for steel, Dofasco's realization on its export sales was appreciably greater in 1969 than during previous years. Thus Dofasco's increased revenues exceeded increased costs by a considerable margin in 1969. Because of its very favorable profit picture in 1969 as compared with 1968, the company is placed in an advantageous position to qualify its price increase for tin plate under the criteria, i.e. by decreasing its profit margins in 1970.

Description of Product and Its Uses

Tin plate is produced in Canada by Dofasco and Stelco. Their tin-plating facilities are located with their main steel rolling mill operations in Hamilton.

Tin plate is made by flat rolling steel through both the hot-rolling and cold-rolling stages and passing the resulting cold-rolled coil through an electrolytic process which applies the coating of tin to the steel. The finished product is sold in coils or cut sheet.

Tin plate is primarily sold to manufacturers of tin cans. The ultimate users of tin cans are the food-processing industries, the beverage producers and a wide variety of others. Thus almost every Canadian purchases items that are packaged in tin-plate containers.

Markets for Tin Plate

Despite competition from a variety of other materials used in making containers, the market for tin plate is expanding and dollar sales by Stelco and Dofasco have increased by 75 per cent over the last 10 years. In March, 1970, Stelco announced that it would construct a new tin-plate line.

Imports are very small, normally about one per cent of domestic production, and do not show a growth trend. The Canadian tariff amounts to 10 per cent, British Preferential, and 12½ per cent, Most-Favored-Nation. Exports are substantial, although their volume varies appreciably from year to year. They account for from 10 to 25 per cent of domestic production.

Prices

The Commission was notified by Dofasco and Stelco that they intended to increase prices of tin plate effective April 1, 1970. Stelco indicated that the increase would be approximately \$10.60 per ton, or about five per cent higher than the existing price level, which had been established on April 1, 1969. Dofasco indicated that it would increase its price for tin plate by five per cent, effective April 1, 1970. It also had increased tin plate prices on April 1, 1969.

The price increase on April 1, 1969, was equivalent to approximately three per cent, made up by a number of adjustments in base prices and extras. The two increases, just one year apart, are equivalent to an eight per cent over-all increase in price.

These price increases have taken place in an environment of strong demand for steel in Canada and abroad. Prices of European and Japanese steel remain at high levels and there is little or no excess steelmaking capacity. Because of these factors, it has been possible for the steel producers to recover

a large part of their cost increases with record profit levels being achieved for firms, such as Dofasco, which did not experience work stoppages in 1969.

The chain reaction to the most recent price increases for tin plate has already begun. In the early part of 1970, the two major producers of tin cans informed their customers that because of higher prices for tin plate, new price schedules for cans would be forthcoming. Certain of these customers, who are food processors, indicated that they would have to consider price increases to offset the increased cost of containers.

Revenues

The price increases announced by the two companies, applied to their estimated 1970 sales volume, would increase their combined revenues in 1970 by approximately \$4,000,000. When all price increases for tin plate in 1969 and 1970 are taken into account, the increment in revenues for the two companies in 1970 is estimated to be about \$7,000,000 greater than the 1968 price levels would have generated. The price increases for all rolling mill products in 1969 and 1970 are estimated to add a total of about \$60,000,000 to the revenues of the two companies in 1970; this is over and above the revenue which would have been generated if the 1968 price levels had prevailed.

Stelco's indicated revenue (before tax) per ton of rolled steel sold would increase by \$11.97 between 1968 and 1970. Dofasco's revenue per sales ton would increase by \$15.10 over the same period and by \$4.36 between 1969 and 1970. The major part of the Dofasco revenue increase (\$10.74) was experienced in 1969, the base year under the criteria.

Costs

Detailed cost tabulations were obtained from each company for its rolling mill division at Hamilton. This information was prepared from actual cost data for the years 1959 to

1969, with projections for 1970.

Figures obtained from Stelco indicate it will experience a cost increase of \$13.51 per ton of output between 1968 and 1970. Over the same period Dofasco's figures indicate that it would face a cost increase of \$15.92 per ton. Comparing 1969 and 1970, Dofasco estimates that it will experience a cost increase of \$9.08 per ton.

It is not possible to reveal a breakdown of these cost figures without divulging confidential company data. It is possible, however, to show the main elements of costs of rolling mill sales for the industry as a whole in recent years.

**COST OF SALES
OF ROLLING MILL SHIPMENTS
1964-1968**

(Dollars per ton)

	Raw Materials	Labor	Other Costs	Total Costs
1964	49.40	30.70	32.10	112.20
1965	49.70	32.60	35.00	117.30
1966	48.90	35.90	37.80	122.60
1967	49.40	38.80	39.10	127.30
1968	50.20	36.80	37.60	124.60
Change 1964-68	+ .80	+ 6.10	+ 5.50	+ 12.40
Per Cent Change 1964-68	+ 1.6%	+19.9%	+17.1%	+11.1%

Source: Prices and Incomes Commission,
"Steel and Inflation", Table 3-1, page 34.

Labor costs during the period 1964-68 have increased by almost 20 per cent, raw material costs by 1.6 per cent and other costs by 17.1 per cent. According to company projections, labor cost per ton of rolled steel will continue to increase appreciably during the period 1968-70. In this connection the cost per man-hour worked of wage and fringe-benefit increases granted by the companies in 1969 was estimated by the Commission in "Steel and Inflation" as approximately \$1.30 or 30 per cent over a three-year period.

While the cost figures used for 1968 and 1969 represent actual costs, the forecasts for 1970 involve a number of assumptions. These assumptions, which have been made by the two companies, have been reviewed and considered in the light of information obtained from a number of independent sources.

It was decided to show cost figures on two bases using (a) only the assumptions made by Stelco and Dofasco (which varied to some degree) and (b) assumptions based on information from independent sources.

The company projections indicated a price for scrap steel ranging from 40 to 50 per cent higher than in 1968. Some independent sources suggest that the increase over 1968 levels might be more in the order of 20 to 25 per cent.

Both Stelco and Dofasco forecast that the cost of zinc will be substantially higher in 1970 than 1968. Other sources suggest, however, that zinc prices in 1970 may not be as far above the levels of 1968 as the steel companies have forecast.

Unlike Stelco, Dofasco stated that it had made no allowance for labor productivity improvement in 1970. In the Commission's earlier report "Steel and Inflation" it was pointed out that the steel industry, over a period of 10 years, has realized productivity gains which have averaged approximately four per cent annually. These gains were calculated by

the Productivity Research and Analysis Section, Dominion Bureau of Statistics, in terms of output per man-hour.

In examining the details of the productivity record for steel production, it is apparent that there have been substantial variations from year to year in the size of productivity gains. In fact the industry lost ground in certain years. There are also considerable variations between individual companies in their rate of productivity improvement.

Although Dofasco is widely regarded as being one of the more efficient and progressive steel manufacturers in Canada, it is difficult to forecast its productivity improvement in 1970 with any certainty because of past fluctuations in year to year performance. It is possible, however, to estimate what its cost position would be in 1970 if its productivity gain were to equal the long-term trend for the industry, namely four per cent annually.

The following figures show the companies' estimates of their cost increases between 1968 and 1970. They also show how their cost figures would be modified if allowance were made for somewhat smaller increases in the cost of scrap steel and zinc, and if provisions were made for an average productivity increase for Dofasco.

Increases in Cost Per Ton Sold, 1968-70

	Company Projection	Revised Projection
Dofasco	\$15.92 per ton	\$13.29 per ton
Stelco	\$13.51 per ton	\$12.82 per ton

Projected cost increases, between 1969 and 1970, for Dofasco are as follows:

	Company Projection	Revised Projection
Dofasco	\$9.08 per ton	\$6.45 per ton

Comparison of Costs and Revenues

The following table shows increases in costs and revenues between 1968 and 1970. The revenue figures are before taxes and are calculated from data supplied by the companies.

The companies' cost figures are shown in column A and revised costs are shown in column B.

(1) Increases Per Ton of Steel Sales, 1968-70 based on

	Revenue	A Unrevised Cost	B Revised Cost
Dofasco	\$15.10	\$15.92	\$13.29
Stelco	\$11.97	\$13.51	\$12.82

(2) Change in Profit Before Tax, 1968-70 based on

	A Unrevised Cost	B Revised Cost
Dofasco	-\$0.82	+\$1.81
Stelco	-\$1.54	-\$0.85

The following table, based on projected increases in costs and revenues between 1969 and 1970, relates only to Dofasco.

(3) Change in Profit Before Tax, 1969-70
based on

	A Unrevised Cost	B Revised Cost
Dofasco	-\$4.72	-\$2.09

Summary of Findings

The above figures indicate that between 1968 and 1970 costs are likely to increase to a greater extent than revenues for Stelco on the basis of both company forecasts and the revised cost calculations. If a comparison is made for Dofasco between 1968 and 1970, the company would face greater cost than revenue increases on the basis of company projections. If provision were made for a cost reduction equal to the full amount of the long-term average annual productivity gain and the forecast cost of steel scrap and zinc is reduced, revenue per ton would increase \$1.81 more than costs. Comparing 1969 and 1970, Dofasco's cost increases will substantially exceed its revenues on both the unrevised and revised cost basis.

Conclusion

The Commission's report on Steel and Inflation reached the conclusion that "the price and cost increases in the steel industry in 1969 were clearly inconsistent with reasonable stability of the general price level and with the national objective of moving toward a lower rate of over-all increase in the months ahead". This general conclusion from the previous report holds true for the tin plate price increase in 1970 and the cost increases associated with it.

The present report is, however, concerned with a narrower issue than the earlier discussion of the steel industry.

The question to be answered here is whether the increase in price of tin plate falls within the criteria agreed to at the National Conference on Price Stability and endorsed by the Heads of Governments at the Federal-Provincial Conference in February. In short, the question is: Have the two firms which produce tin plate reduced the number and size of price increases they would normally make in 1970 by ensuring that these increases are clearly less than the amount needed to cover the increases in cost at a normal volume of output and sales?

In the case of The Steel Co. of Canada Ltd. the answer is "yes". Given the major strike in 1969, the relevant base period for Stelco is 1968 and it appears that the company will absorb a significant part of the cost increases which will occur between 1968 and 1970.

In the case of Dominion Foundries and Steel Ltd., the answer also is "yes", in terms of the letter of the agreed criteria. In terms of the spirit of the price restraint arrangements, however, the answer is probably "no".

If 1968 were used as the base and the Dofasco cost estimates were subjected to a revision in the light of independent information, Dofasco would be offside. Even using the company's own estimates for 1968 and 1970 its price increases would not be clearly less than its cost increases. But Dofasco did not encounter work stoppages in 1969 and, while it benefitted from the market conditions arising from the strikes in other companies, there is not a clear-cut case for ignoring 1969 and using 1968 as the appropriate base. When 1969 is used, the price increase is within the criteria.

Corporate profits per unit of output in the economy as a whole did not rise significantly in 1969 as compared with 1968, but in the case of some firms, of which Dofasco is an example, their already strong profit position improved appreciably. Under these conditions the observance of the criteria does not impose a significant burden on firms, and price

increases which are clearly less than cost increases may still leave companies in a very favorable position. To the extent that firms with high profits in 1969 take advantage of this situation to raise prices which formally meet the letter of the criteria, they weaken the price restraint program and make it more difficult to achieve the moderation in cost increases which is essential to bring inflation under control.

This price increase for tin plate will trigger an increase in the price of containers which will raise the prices of food and beverages for consumers at the retail level. This is a typical example of the way in which the inflationary process works and until cost increases are moderated changes of this kind will continue.

In the present case, the Commission is not suggesting to governments that action should be taken. It would, however, like to register its view that the five-per-cent price increase by Dominion Foundries and Steel Ltd., while formally within the criteria, does not provide adequate support for the effort to restrain cost and price increases with a minimum loss of output and employment.

